



Initial Pricing Work Group Report

***Discussion Materials for
February 24, 2005
RRG Meeting***



Background: Proposed Principles and Assumptions for Pricing Work



Proposed Principles for Pricing Work

- Minimize cost shifts
- Transmission owners must be “kept whole” with respect to recovering the fixed costs of their transmission systems
- Existing transmission rights and obligations must be honored (but not “enhanced” beyond what the holders have today)
- The Grid West market design and pricing proposal must be compatible with each other



Proposed Principles for Pricing Work (cont'd)

- Fixed costs will be recovered through load-based charges (except for pre-existing transmission agreements that are not load-based)
- Minimize opportunities for market manipulation and gaming
- The pricing proposal must continue to fulfill its objectives over time (even as the array of pre-existing transmission agreements and the physical transmission system evolve)



Proposed Assumptions for Pricing Work

- The overall service structure for Grid West will be along the general lines proposed by the TSLG, such as:
 - Service (and payment obligations) continues under pre-existing transmission agreements.
 - Grid West will offer Regional Network Service (“RNS”), subject to the System Access Requirements (“SAR”).
 - There will be Reconfiguration Service (“RCS”) that will allow parties to voluntarily bid for injection/withdrawal rights (“IWRs”) and also offer some or all of the transmission rights they are entitled to resell, once those rights have been voluntarily translated into IWRs.



Proposed Assumptions for Pricing Work (cont'd)

- Assume the TSLG-proposed service structure for Grid West (continued):
 - Grid West will also offer Available Flowgate Capacity (“AFC”) through the RCS auctions.
 - Charges related to RNS will be directed into a fund to create a Regional Revenue Requirement Adjustment (“R3A”) that can be allocated to transmission owners that are no longer able to recover part of their fixed costs through charges for non-firm and short-term transmission service (because transmission owners will no longer offer new transmission service, of any duration, after Grid West starts operations).



Proposed Assumptions for Pricing Work (cont'd)

- The pricing proposal should be consistent with the “Company Rate Approach” described in the Regional Proposal and the Grid West Operational Bylaws.
- There will be NO mandatory conversion of pre-existing transmission rights, but there can be voluntary conversion of existing transmission service to Grid West service.
 - A transmission owner could opt to serve its native load with Grid West service; a transmission provider and customer could agree together to convert one or more of their pre-existing agreements to Grid West service.



Proposed Assumptions for Pricing Work (cont'd)

- There will be a robust Reconfiguration Service market.
- There will be an export fee – that is, a requirement that new users wishing to schedule exports will have to make some contribution to the fixed costs of the system.

(Note that those with pre-existing transmission agreements that enable exports will simply continue to make payments under and use the rights conferred by their pre-existing transmission agreements.)



***Work Scope:
Proposed Deliverables and
Ideas for Questions
to Answer***



Proposed Pricing Work Group Deliverables

- **Written description** of the pricing proposal answering key questions (by late May 2005)
 - Expected level of detail: about a paragraph for relatively simple elements of the proposal; several paragraphs explaining more complicated elements
- A **“Question & Answers”** document to provide easy reference to particular topics
- **Illustrative materials** (such as diagrams, flow charts, an example calculation spreadsheet)



Proposed Pricing Work Group Deliverables (cont'd)

- **Seminar presentation materials** (expect to hold seminar in mid- to late-June 2005)
- An explanation or illustration of the **linkage** between the pricing proposal concepts and the TSLG transmission service proposal
- Excerpts from Grid West **glossary** with terms relevant to the pricing proposal



Possible Questions to Answer

1. What types of services will Grid West offer?

- This question will be answered from an overview perspective by reference to TSLG materials.
- What happens if customers with existing transmission rights want to voluntarily convert their transmission service to Grid West service?



Possible Questions to Answer (cont'd)

2. What will customers pay for Grid West's services?

- What is the “**Company Rate**” under the Grid West pricing proposal?
 - *How is the Company Rate computed?*
 - *When will a customer be required to pay the Company Rate?*
 - *What service does a customer get by paying the Company Rate?*
 - *How does the Company Rate relate to voluntary conversion of existing transmission service to Grid West service?*



Possible Questions to Answer (cont'd)

2. What will customers pay for Grid West's services? (continued . . .)

- Is there an **export fee** for transactions that wheel power out of the Grid West managed system?
 - *How is the export fee computed?*
 - *How are the revenues generated from export fees allocated among the transmission owners?*



Possible Questions to Answer (cont'd)

2. What will customers pay for Grid West's services? (continued . . .)

- If a customer wants to obtain new long-term transmission service from Grid West, how does the customer obtain that service and what will the customer be charged for it?
 - *How is the charge for new service calculated?*
 - *How are the revenues from the new service allocated among transmission owners?*
 - *How are requests that require AFC on multiple systems handled?*
 - *What happens to service requests in existing queues?*



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners recover their fixed costs?

- How are transmission owners compensated for service provided under **pre-existing transmission agreements**?
- How will **expiring contracts** (including **GTAs**) be handled?
 - *What will happen to the transmission owner that previously provided the transmission serving under the expiring contract?*
 - *How will the revenues previously generated by payments under the expiring contract be replaced?*



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners **recover their fixed costs?** (continued . . .)
 - How will **expiring contracts** (including **GTAs**) be handled? (continued . . .)
 - *How will transmission customers whose contracts expire obtain future transmission service?*
 - *Who will be responsible for requesting new service when contracts expire?*
 - *How does the principle that “load pays” apply to new service that replaces GTAs?*



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners **recover their fixed costs?** (continued . . .)
 - How will **contract rollover rights** be handled?
 - If transmission owners will no longer offer short-term and non-firm transmission service after Grid West begins operations, how will the transmission owners make up for the resulting “**lost revenues**”?
 - How is the amount of lost revenue calculated? How often? Is it trued up somehow?



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners **recover their fixed costs?** (continued . . .)
 - How are funds designated to replace lost revenues allocated among transmission owners? What if the funds available to replace lost revenues are less than the “targeted” amount?



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners **recover their fixed costs?** (continued . . .)
- What will customers be charged for new (incremental) transmission service provided in the form of **Regional Network Service**?
 - *How is the charge calculated? How often is it recalculated? What is the process?*
 - *If revenues from access charges applied to customers that request Regional Network Service are directed to the **Regional Revenue Requirement Adjustment (“R3A”)** fund, how are those funds allocated among transmission owners?*



Possible Questions to Answer (cont'd)

3. How will Grid West transmission owners **recover their fixed costs?** (continued . . .)
 - What happens if primary mechanisms to replace lost revenues do not cover the full amount of lost revenues?
 - If there are any surplus revenues generated from the **Reconfiguration Service** auctions (due to sale of Available Flowgate Capacity (“AFC”)), what will be done with those revenues? How will they be allocated?



Possible Questions to Answer (cont'd)

4. How will the Grid West **Grid Management Charge work?**

- How is the Grid Management Charge calculated?
- How are customers charged?
- How are potential short-falls and over-collection addressed?



Possible Questions to Answer (cont'd)

5. How is the Grid West pricing proposal different from current practices?
6. How is the Grid West pricing proposal different from the RTO West Stage 2 pricing proposal?



Possible Questions to Answer (cont'd)

7. What happens after the end of the eight-year period during which Grid West is not allowed to depart from the “Company Rate Approach”?
8. Are there seams issues that can be or have been addressed through the Grid West pricing proposal?



Questions?

Comments?

Suggestions?